



2011 Annual Review and 2012 Work Plan

The Electric Utility Commission

PART I – Annual Review

For the reporting period January 1, 2011 through December 31, 2011

1. Provide a brief summary of the work of the board during the past year including a list of their activities and achievements.

Overall, the Electric Utility Commission (EUC) evaluated Austin Energy (AE) purchases and major generation decisions, reviewed the current financial state of AE, provided recommendations for Council action, passed resolutions on major energy issues facing the City of Austin, and monitored tactical and strategic matters facing AE.

- A. We reviewed 171 Requests for Council Action (RCAs), received 45 staff reports and briefings, and addressed three items in executive session.
- B. We provided specific recommendations or resolutions to the Austin City Council on these matters (See Attachment A):
 - Eliminating General City Expenses from AE's 2012 Budget to Protect City Council Powers to Amend Rates without Appeal to the Public Utility Commission
 - Duplicative commission coverage of AE operations
 - Funding of EGRSO
 - 2011 Rate Review Decision Point List
 - Implementation of a program allowing citizen-owned community solar inside AE's service territory
 - Concerning Costs of Delaying New Rates
- C. The EUC received 102 Citizen Communications in 2011, including 84 during Rate Review discussions in September and October.
- D. The EUC was represented during AE's Public Involvement Committee programs on the redesign of electric rates.

E. Among the issue areas reviewed by the EUC in 2011 were:

- Funding methods for energy efficiency programs
- City regulation of electric customer privacy
- Federal grants for AE weatherization programs
- Customer care, billing, deferred payment arrangements, and disconnections
- Rolling blackouts of February 2, 2011
- Rate redesign process and principles, including decision point list
- Energy Conservation Audit and Disclosure requirements
- Texas Legislative activities affecting AE
- Austin Energy's Fuel Hedging Program
- US DOE "BetterBuildings" Program
- AE's 2012 budget
- AE's generation resources
- Implementation of ERCOT Nodal Market
- Plans to execute additional long-term wind power purchase agreements
- PPA's for coastal wind power
- Transparency and reporting in Annual Performance Report
- Representation on customer rate design panels
- AE solar generation planning and value of solar
- Strategy to reach peak demand goals
- customer complaint process and procedures
- programs for low income customers (including weatherization)
- energy conservation programs
- policies concerning back billing
- AE's role in economic development
- net metering
- tree trimming
- power factor standards for commercial billing

Attachment B: List of briefings and reports provided to the EUC in 2011.

2. Evaluate board actions throughout the year to determine compliance with the mission statement.

All activities and achievements of the EUC during 2011 were in compliance with the mission statement of the Commission as outlined in the Ordinance.

PART II – Workplan

1. Mission statement (Bylaws)

The purpose of the board is as follows:

- (A) The commission shall review and analyze all policies and procedures of the electric utility, including the electric rate structure, fuel costs and charges, customer services, capital investments, new generation facilities, selection of types of fuel, budget, strategic planning, regulatory compliance, billing procedures, and the transfer of electric utility revenues from the utility fund to the general fund.
- (B) The commission shall advise the city council, the city manager, the electric utility, city departments, and city boards, commissions, and committees on policy matters relating to the electric utility. All advisory information given shall simultaneously be forwarded to the city manager.
- (C) The commission may review, study, and make recommendations to the Planning Commission on proposed electric utility projects for inclusion in the Capital Improvements Program.
- (D) The commission may request that the city council hire an outside consultant every five years to make a comprehensive review of the policies and procedures of the electric utility. The commission may initiate an external or internal review of the policies and procedures of the electric utility. If the commission initiates a review, it shall report its findings to the city council and the city manager.
- (E) The commission shall interpret the role of the electric utility to the public and the role of the public to the electric utility. The commission may hold a public hearing and briefing session every six months to explain new policies and to take citizens comments, suggestions, and complaints.
- (F) The commission may make recommendations to the city council before final council action on a policy or procedure of the electric utility.
- (G) The commission shall request from the city manager any information which it deems to pertain to the electric utility.
- (H) The commission shall, as a body, review customer complaint procedures, accept specific customer grievances and complaints, and make recommendations to the city council and city manager based on its findings. This duty does not supersede, replace, or substitute for the appeal procedures provided to customers in the City Utility Service Regulations.

- (I) The commission shall seek to promote close cooperation between the city council, other city boards, committees, and commissions, city departments and individuals, institutions and agencies concerned with the policies, procedures, and operations of the electric utility to the end that all similar activities within the City may be coordinated to secure the greatest public welfare.

2. Goals and objectives for the next plan year focused on long-range, strategic issues.

- Assist AE in completing its rate redesign
- Increase communication between City Council Members and EUC members
- Push for long-term solution to General Fund Transfer method question
- Increase public communication with EUC
- Encourage public discussion on the future governance of AE and the appropriate role and authority of the EUC
- Provide public oversight over AE's budget and efforts to reduce costs
- Provide public oversight over long term planning regarding electric rates

3. Proposed activities for the next year to achieve the commission's goals and objectives.

In addition to our regular monthly meetings in review of AE policies and procedures, we make the following recommendations.

We recommend that EUC members should meet at least quarterly with their appointing City Council Members to review current and future issues relating to AE.

We recommend that least one EUC member should accompany each resolution sent by the EUC to the City Council and be present when it is heard by the City Council, and also available to answer questions by Council Members and staff.

We recommend that the EUC have a separately dedicated web page on the City's web site. To limit costs, we recommend that this web page be limited to the following functionality: information explaining the role of the EUC, information explaining how citizens can communicate to the EUC and allowing them to do so over the web, links to agendas and minutes of EUC meetings, and links to video of EUC meetings. There should be a link to this website from the AE web site.

Attachments:

- A. Resolutions or written recommendations sent to the Council in 2011
- B. List of briefings and reports received in 2011

Resolution of the Electric Utility Commission**February 28, 2011****Eliminating General City Expenses from Austin Energy's 2012 Budget to
Protect City Council Powers to Amend Rates without Appeal to the Public Utility Commission**

Whereas, the Electric Utility Commission (EUC) is a citizen advisory board established to advise the City Council on matters relating to Austin Energy;

Whereas, since 2007 the EUC has passed resolutions each year calling on the City Council to remove from Austin Energy's operating budget expenses that fund general city programs that do not directly relate to the Austin Energy's business as a utility;

Whereas, this Resolution does not relate to the general fund transfer, but only addresses operating expenses that Austin Energy is being required to carry in its annual operating budget;

Whereas, several of the EUC's prior resolutions on this subject are attached to this resolution;

Whereas, an appeal of Austin Energy's rates to the Public Utility Commission (PUC) is much more likely if Austin Energy is required to absorb City of Austin expenses for activities that are not used or useful in the production or transmission of energy by Austin Energy;

Whereas, Austin Energy is preparing to amend its rates in 2012;

Whereas, an appeal of Austin Energy's proposed rates to the PUC would be very expensive and expose all Austin Energy customers to considerable risk and uncertainty;

Whereas, the EUC prefers local, not state, control over Austin Energy's rates;

Whereas, the City should position itself as soon as possible to minimize the chance of such an appeal to the PUC or, in the alternative, to maximize its chance of success in the event of such an appeal;

Whereas, the City should eliminate in Austin Energy's 2012 budget as many items as possible that would weaken Austin Energy's position in front of the PUC, such as expenses borne by Austin Energy that are not used or useful in the production or transmission of energy by Austin Energy;

Therefore, be it Resolved, the City Council should direct the City Manager to work with Austin Energy's attorneys to identify items in the Austin Energy 2012 budget that are most likely to make Austin Energy's approved rates in 2012 subject to an appeal to the PUC and, in the event of such an appeal, are most likely not to be approved by the PUC when calculating Austin Energy's rates;

Resolved, the City Manager should report those items to the EUC and City Council no later than April 15, 2011 so that as many of those items as possible can be removed from the 2012 Austin Energy budget.

Resolution of the Electric Utility Commission**February 28, 2011****Cost Analysis of the City's Boards and Commissions**

Whereas, on January 27, 2011 the City Council directed the City Manager to work with the City Clerk to conduct a cost analysis of the City's boards and commissions system;

Whereas, both the Electric Utility Commission (EUC) and the Resource Management Commission (RMC) oversee Austin Energy;

Whereas, both the EUC and the RMC are non-sovereign commissions comprised of volunteers who may, or may not, have specialized knowledge regarding the operation of an electric utility company;

Whereas, Austin Energy has revenues over \$1 Billion annually and engages in a wide variety of highly sophisticated activities;

Whereas, the EUC wishes to contribute its opinions and experiences to the City Manager's analysis;

Therefore, be it Resolved, the EUC believes that having two non sovereign commissions oversee Austin Energy is neither efficient nor effective, especially when those commissions are volunteers with no required experience in the utility industry;

Resolved, the City Manager should consider consolidating the review of Austin Energy to a single commission so as to eliminate the need to have city staff spend duplicative nights before two commissions.

**Electric Utility Commission
Resolution
August 15, 2011**

WHEREAS, the Electric Utility Commission is concerned that using Austin Energy monies to pay for the Economic Growth & Redevelopment Services Office's (EGRSO) budget may increase the likelihood that Austin Energy's new rates are appealed to the Public Utility Commission (PUC);

WHEREAS, the Electric Utility Commission is concerned that using Austin Energy monies to pay for EGRSO's budget may weaken Austin Energy's ability to defend its new rates if Austin Energy's new rates are appealed to the PUC;

WHEREAS, the Electric Utility Commission has recommended for several consecutive years that requiring Austin Energy to fund a department, such as EGRSO, that Austin Energy does not oversee is a bad business practice that leads to waste;

WHEREAS, inadequately funding energy efficiency is poor planning for the utility;

WHEREAS, having a Repair and Replacement Fund for the utility with close to zero dollars is not prudent planning;

THEREFORE, the Electric Utility Commission recommends approving the proposed FY 2012 Budget, subject to eliminating Austin Energy's funding of EGRSO and applying those funds to restore Austin Energy's energy efficiency programs to last year's levels and the remainder applied to Austin Energy's Repair and Replacement Fund.

This resolution was unanimously approved by the members of the Electric Utility Commission at their regularly-scheduled meeting on August 15, 2011.

Phillip Schmandt, Chair
Linda Shaw, Vice Chair
Gary 'Bernie' Bernfeld
Shudde Fath
Stephen Smaha
Steve Taylor
Dr. Michael Webber

2011 Rate Review Decision Point List – Electric Utility Commission (EUC) Review

| Issue | Austin Energy Staff Recommendation ¹ | Residential Rate Advisor | EUC Majority Position | EUC Minority Position(s) ² |
|--------------------------------|---|---|---|--|
| 1. Achieve Revenue Requirement | Collect revenues from all customer classes sufficient to fund core functions and the utility's strategic objectives. Increase overall revenues based on the Test Year 2009 results from \$1,004,133,897 to \$1,111,135,775, or an 11.1% increase. | <p>Concur as Austin Energy (AE) must collect its revenue requirement.</p> <p>Agree that cash flow methodology is reasonable to use to calculate revenue requirement.</p> <p>Concur with use of 2.0X debt service coverage (DSC).</p> <p>Concur with the use of 50% debt funding assumption.</p> <p>Concur with the level of Capital Improvement Plan (CIP) funding, although not with the method by which that level was derived.</p> <p>Concur with the level of the General Fund Transfer (GFT) and recognize that AE has properly followed City policy with respect to GFT computation. However, the Residential Rate Advisor (RRA) recommends that the GFT be calculated on a basis that does not include highly variable power supply costs.</p> <p>RRA concurs that the level of Administrative and General (A&G) expense is reasonable.</p> <p>Concur with known and measurable adjustments, except to</p> | <p>Concur with AE, subject to removing the following from the revenue requirement:</p> <ol style="list-style-type: none"> 1. Economic Growth and Redevelopment Services Organization (EGRSO) and Austin Climate Protection Plan (i.e., departments where employee salaries are paid by AE but the employees do not report to AE (See annual EUC resolutions since 2007); 2. Any portion of the general fund transfer based on fuel revenues (See annual EUC resolutions since 2007); and 3. An additional reduction of the revenue requirement of \$13.6 million [based on analysis under "Scenario 3" presented by the RRA at the October 17, 2011 EUC meeting]. <p>10/17/2011: Motion by Schmandt, second by Smaha, passed on 6-1 vote with Day voting no.</p> | <p>Disagree. AE's request for a rate increase of \$111 million should be rejected. City Council should cut that request by 50-75%. The stated deficiency is made up of discretionary reserves that are mostly funded in other ways; removal of test year revenues resulting in over-statement of the need for an increase; and overstated expenses.</p> <p>Following is a summary of proposed reductions to AE's requested increase. The adjustments total \$100 million [out of \$111 million requested], and are intended to assist Council in evaluating AE's request.</p> <p>Recognize the test year level of off-system sales revenues. That amount is \$35 million. AE has adjusted these revenues out of the test year for rate-making purposes on the basis that it does not know what the actual level of revenues will be in the future, and because participation in the nodal market will change how revenues will be accounted for. AE admits it will continue to receive off-system sales revenues. The test</p> |

¹ Preliminary; to be finalized for final proposal to the Austin City Council following evaluation of public input and input from the EUC during the EUC review process.

² The EUC Commissioners supporting the minority positions are noted following the text regarding each issue or sub-issue identified.



MEMORANDUM

TO: Mayor and City Council

CC: Marc A. Ott, City Manager

FROM: Toye Goodson Collins, Staff Liaison to the Electric Utility Commission

DATE: December 16, 2011

SUBJECT: Recommendation by Electric Utility Commission regarding community solar energy

As requested by the Electric Utility Commission (EUC), I am forwarding to you a recommendation approved by them at their last meeting regarding community solar energy.

Their recommendation was made in reference to Council Resolution No. 20110804-027 directing staff to provide a report within 90 days on the current strategy to reach the adopted goal of 200 MW of solar generation by 2020, with input from the EUC and the Resource Management Commission (RMC). Austin Energy submitted the report, as required, on November 2 with some input from the EUC. (The RMC had no additional recommendations.) Due to time constraints at the EUC's regular meeting in October, they continued discussion of the resolution at their November meeting and made the following recommendation:

The Electric Utility Commission recommends that the City Council instruct the City Manager to implement a program that allows the operation of citizen-owned community solar inside Austin Energy's service territory on a basis that recovers the full cost of service to the utility.

The motion, by Chair Phillip Schmandt and seconded by Commissioner Gary "Bernie" Bernfeld, passed on a 5-0-1 vote with Vice Chair Linda Shaw abstaining.

**A Resolution by the Electric Utility Commission
December 19, 2011**

WHEREAS, maintaining the long-term financial strength and sustainability of Austin Energy is a critical priority of the City of Austin, and

WHEREAS, Austin Energy's base electric charges were last adjusted in 1994, and

WHEREAS, over the last 17 years Austin Energy has experienced significant increases in costs of materials and labor, system growth, and expansion of programs; and

WHEREAS, the Electric Utility Commission and Austin Energy's Public Involvement Committee held a lengthy series of public meetings and hearings with customer and stakeholder groups from January 2011 through October 2011 and received hundreds of public comments from a specially created website, as authorized by Council Resolution No. 20100930-026; and

WHEREAS, the Electric Utility Commission performed a thorough and complete review of information submitted by customers and stakeholder groups, and provided detailed feedback to Austin Energy to achieve a fair, just, and reasonable and equitably balanced rate proposal; and

WHEREAS, Austin Energy incorporated most of the Electric Utility Commission's majority comments in its proposed rates, which were submitted to the City Council on December 14, 2011; and

WHEREAS, the recommendations of the Residential Rate Advisor were largely incorporated in the proposed made to Council by Austin Energy; and

WHEREAS, on December 14, 2011, Austin Energy reported to the City Council that Austin Energy expects its expenses to exceed its collected revenue by \$126 million during 2012 without a rate increase that meets Austin Energy's cost of service; and

WHEREAS, \$24 million of the revenue shortfall is intended to replenish Austin Energy's Operating Fund, which has been depleted to meet operating expenses from \$267 million in 2007 to \$38 million in 2012, averaging about \$46 million per year; and

WHEREAS, \$102 million of the 2012 revenue shortfall occur in the utility's operating budget, which implies an average revenue shortfall of about \$2 million per week during 2012, or \$279,452 for each day in 2012 without a rate increase that meets the utility's cost of service;

THEREFORE, BE IT RESOLVED,

The Electric Utility Commission advises the City Council to complete its rate review and approval process as quickly as possible to mitigate the impact of Austin Energy's revenue shortfall on utility operations.

This resolution was adopted on December 19, 2011 by a vote of 4-2-1 with Chair Schmandt and Commissioners Bernfeld, Smaha, and Webber voting “yes,” Commissioners Day and Shaw voting “no,” and Commissioner Fath abstaining.

DRAFT

Staff Briefings and Reports provided to the Electric Utility Commission in 2011**JANUARY 24, 2011**

- AE Quarterly Briefing (rate review, renewables planning, affordability, near-term strategies)
- Customer Care & Billing Project
- Customer Privacy
- Tariff for EV Charging Stations
- Energy Efficiency Cost Recovery Rider
- Quarterly Report: M/WBE Goals (Purchasing Office)—submitted via email

FEBRUARY 28, 2011

- Customer Privacy Issues follow up
- Status of EGRSO funding for FY2012 and add'l departmental allocations of expenses
- Final version of Energy Efficiency Cost Recovery Rider
- Rate Redesign Process
- Legislative Report
- Report on Rolling Blackouts of Feb. 2, 2011

MARCH 21, 2011

- Monthly Update on Rate Redesign Process
- Clean Energy Accelerator (DOE Better Buildings Program)
- Meter Implementation Project (submitted via email)

APRIL 18, 2011

- Rate Redesign Process

MAY 16, 2011

- Texas Nodal Market Implementation
- Five-Year Financial Forecast and FY 2012 Budget work session
- Fuel Hedging Program – Exec Session briefing
- Report on M/WBE Goals (Purchasing Office)—submitted via email

JUNE 20, 2011

- Rate Redesign Process
- FY 2012 Budget Work Session
- Generation Resources – Exec Session briefing
- Power Factor – written report submitted

JULY 18, 2011

- Rate Redesign Process
- Annual Performance Report FY 2010
- Plans for additional long-term wind power purchase agreements
- Report on software purchases including costs, functions

AUGUST 15, 2011

- FY 2011-2012 Budget Presentation, Action
- Rate Redesign Process
- Annual Performance Report FY 2010
- Report on M/WBE Goals (Purchasing Office)—submitted via email

SEPTEMBER 1, 2011

Special-called meeting to discuss Rate Redesign Process – staff recommendations

SEPTEMBER 19, 2011

Rate Redesign Process

OCTOBER 3, 2011

Special-called meeting to discuss Commercial and Industrial Electric Rates

OCTOBER 17, 2011

- Development of Electric Rate Recommendations for submission to City Council
- Provide input on solar generation planning per Council Resolution No. 20110804-027
- Election of Officers

OCTOBER 20, 2011

Special-called meeting to Develop Electric Rate Recommendations for submission to City Council

NOVEMBER 14, 2011

- Acceptance of 2010 Annual Performance Review
- Adopt 2012 meeting schedule
- Provide input on strategy to reach goal of 800 MW of peak demand savings by 2020, per Council Resolution No. 20111006-060
- Report on M/WBE Goals (Purchasing Office)—submitted via email

DECEMBER 19, 2011

- Council presentation – AE Recommendations and Report on Electric Rate Redesign
- Budget Billing
- Presentation of Imagine Austin Comprehensive Plan proposal by City staff